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NOTES AND MEMORANDA

PROFIT-SHARING IN GREAT BRITAIN ¹

THREE earlier reports on profit-sharing in the United Kingdom have been issued by the Labour Department of the Board of Trade, in 1891, 1894, and 1912. The report of 1894 was prepared by David F. Schloss, whose prior treatment of this subject *Methods of Industrial Remuneration* remains in many ways the ablest study in its field. The material for the report of 1912 was gathered by Mr. Schloss; upon his death it was finished by other members of the Labour Department. The report for 1920 has fortunately followed throughout the model established by Schloss, but has brought the descriptive and statistical material down to the year 1919.

The Ministry of Labour still applies the definition of profit-sharing which was formulated at the International Congress of Paris in 1889. From this report are, therefore, excluded the more modern and widely applicable methods of associating employees with employers in the management of industry. Co-partnership committees following the model recommended in the Whitley Report have been established in many profit-sharing firms, and therefore are subject to incidental treatment in this volume; but most workshop committees are to be found in firms which utilize other methods of industrial remuneration to induce incentive on the part of their workers, such as piecework, premium systems, commission sales, none of which are covered here. Schemes resembling profit-sharing which have been applied in municipal trading are also excluded.

On October 31, 1919, there were 182 firms recorded as practicing profit-sharing in the United Kingdom, employing

¹ Report on Profit-Sharing and Labour Co-partnership in the United Kingdom. Great Britain, Ministry of Labour (Intelligence and Statistics Department). London, 1920. Pp. viii, 244. Parliament. Papers. Price, 1s.

about a quarter of a million persons. These are the survivors of some 380 recorded schemes which have been started since 1829. Only fourteen schemes now existing are of more than thirty years standing. Only thirty-six were started earlier than the year 1901. The average duration of those which failed was about eight and one-half years.

Profit-sharing is practiced in a variety of trades and industries and in firms large and small. Six per cent of 164 firms now practicing profit-sharing have twenty-five employees or less, 20 per cent have more than 1000 employees, 5 having over 10,000 and one nearly 70,000. The usual type of profit-sharing is the cash bonus system; this is utilized in 59 per cent of all schemes, excluding gas companies, and in 66 per cent of those which have been started since 1910 and are still in existence. The next largest group is that in which the bonus is paid into a savings or deposit account. True co-partnership schemes in which the employees receive their profits wholly or in part in the form of shares in the company are still very rare outside of the gas companies and workers' coöperative productive associations.

The actual amount of profits distributed looks large in certain firms. The South Metropolitan Gas Company, for example, has paid more than £770,000 in bonuses in thirty years and the employees have over £500,000 invested in shares or deposited in the hands of the company at interest. Messrs. Lever Brothers, Ltd., have distributed over £700,000 in ten years. Messrs. J., T. and J. Taylor, Ltd., have paid over £330,000 in bonuses. Yet the average rate of bonus paid for the whole period 1901-18 is only $5\frac{1}{2}$ per cent of wages, and approximately 15 per cent of the profit-sharing firms have each year paid no bonus at all. In the year 1918 the average bonus for 105 firms (81,833 persons being entitled to participate) was £3 13s. 3d. Excluding employees in firms which paid no bonus that year, the average bonus to 52,056 participants was £5 15s. 2d. The Department of Labour concludes that in some instances the profit-sharing was a clear addition to wages, but is unable to ascertain how generally this is the case.

In very few instances do the employees own a large proportion of the capital. In only two instances do they own one half. Outside of the gas companies, there are only four recorded cases in which employees are included on the Board of Directors and in only one of these cases do their representatives constitute as much as half of the Board.

In coöperative societies profit-sharing has declined since the last report was issued. Now only 103 out of 1384 retail distributive societies or approximately $7\frac{1}{2}$ per cent give any share in profits to their employees, altho an average of 220 engaged in this practice in the ten-year period 1901-10. In this same interval the Scottish Coöperative Wholesale Society has abandoned its practice of profit-sharing, following the example of the English society at Manchester, on the ground that such bonuses are inequitable and that labor should be remunerated by means of trade union rates of wages and best possible working conditions. Of the consumers' productive societies only three give any share of profits to employees. The productive associations of workers have continuously declined throughout this period, their number in 1918 being only seventy-six, whereas in 1904 there were 125. Of surviving productive associations of workers in 1918, only forty-four paid a bonus on wages. The ratio of the bonus was $8\frac{2}{3}$ per cent of wages. It is notable, however, that the percentage of employees who are members has increased in these societies, and that the share of capital owned by employees and the proportion of employees on the central committees of these societies have both materially increased. Of agricultural coöperative societies only seventy-nine out of 387 were sharing profits with their employees in the year 1916.

The effect of the war on the profit-sharing movement has apparently not been great. In a few instances profits were reduced or eliminated by war conditions. In only two instances were circumstances so adverse as to lead to the liquidation of the business. The effect of the war was most felt in the gas companies, because the rise in cost of coal and other materials and in wages obliged these companies to raise their charges, which in the sliding scale companies automatically

reduced dividends. Several companies continued to pay a small bonus to employees after a revision of their scale, and other temporary expedients were utilized. The most marked effect was the prevention of the establishment of new profit-sharing schemes, only from three to five being established during each year of the war. The high income tax and excess profits duties in some cases reduced the amounts available for distribution as bonus. Many of these firms also encouraged investment in government loans rather than their own capital stock. In general, however, no marked effect of the war on profit-sharing was apparent.

Periodicity of interest in profit-sharing is noteworthy. The years 1889-92, 1908-09, 1912-14 have been periods of relative activity in this field. But these were also years of good employment combined with industrial unrest. In the first ten months of 1919 there were twenty-nine new ventures in profit-sharing, which probably indicates a tendency of employers to use profit-sharing as a means to combat contemporary discontent. In spite of this renewed interest it is questionable whether profit-sharing may be considered to be a promising device for the general improvement of industrial relations or for the promotion of increased productivity. The greater vogue of premium systems as a means to the latter end and of shop committees as a means of associating employees in the control of industry suggest the obsolescence of orthodox profit-sharing. Unfortunately this British report, characterized tho it is by painstaking (and unquestionably valuable) case-counting and by careful description of both existing and defunct enterprises, fails to offer comment on the relative values of different types either in the large or in detail. It is regrettable that the best informed should assume that the submission of well-thought-out recommendations on future industrial policy is not their prerogative.

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